MEMO

To: **Brian Groome, Georgia House of Representatives**
From: **Philip Gilman, Director, Office of Housing Finance, Georgia DCA**
Date: **August 11, 2017**
Re: **Overview of Georgia Low-Income Housing Credit Allocation**

Brian - This memo is intended to provide context and explanation for the attached annualized credit allocation data set labeled “Georgia Housing Tax Credit by Final Allocation Year.” We are available to answer any further questions regarding this spreadsheet or other aspects of the program.

Housing Tax Credit Allocation Amounts—The 9% and 4% Credits

The Low-Income Housing Credit is a credit against Georgia income taxes for taxpayers owning developments receiving federal Low-Income Housing Tax Credits that place in service on or after January 1, 2001. There are two types of federal Housing Credits, typically referred to as 9% and 4% credits, which were designed to provide 70% and 30%, respectively, of the present value of eligible development costs.

9% credits are allocated annually to each state based on population and a per capita factor--$2.35 in 2016—determined by the IRS. Georgia’s received $23,494,178 of credits in 2016, which were then awarded though a highly competitive process. The amount of credits awarded to development teams and the ultimate number of units produced in the 9% round fluctuate and are impacted by internal administrative decisions, policy decisions set out in the Georgia Qualified Allocation Plan, the market value of housing credits to investors in a given year, construction costs, and incentives to invest in CRA areas.

4% credits are issued by formula, rather than competitively, to developments funded at least 50% by tax exempt bonds. Because the federal government subsidizes housing and other tax-exempt bond activities through tax-free interest, each state’s annual issuance of such bonds is capped. The 2016 cap was $100 per capita, and this overall pot was used for many efforts, including multifamily housing. The amount of 4% credits issued and units produced can vary widely by year and is driven primarily by economic factors, such as achievable rents.

It is important to note that the number of units produced in a year is not simply a factor of the amount of available credits. For example, housing for Georgia’s increasing senior population is more expensive than housing for families, as development tend to have a higher proportion of 1-bedroom apartments. Historic preservation and environmental cleanup can also increase costs of particular properties. DCA has funded downtown historic renovations in Atlanta, Rome, and Waycross Georgia in recent years—investments in revitalizing Georgia urban spaces that come at a higher cost than a typical development. Additional examples of a such examples that can help explain anomalies in the data set provided is included in Appendix I.

10-year Credit Period

Credits are generally claimed over a ten-year period, beginning typically in the year after the property places in service. Therefore, properties that begin claiming credits in 2017 will claim credits through 2026.

For example, as depicted in the table to the right for 2016, properties that started claiming credits in 2007 claimed their last year's credit allocation in 2016. The total allocation of $233 million in 2016 reflects the sum of 10 years of developments claiming credits. This cumulative effect of annual allocations is further depicted in Appendix II.

Filing Year: 2016		
Year Started Claiming Credits	Year of Filing	Allocation
2016	**Yr 1**	19,239,103
2015	**Yr 2**	21,303,343
2014	**Yr 3**	21,650,615
2013	**Yr 4**	27,077,131
2012	**Yr 5**	27,818,496
2011	**Yr 6**	7,756,373
2010	**Yr 7**	16,306,205
2009	**Yr 8**	33,636,811
2008	**Yr 9**	35,203,637
2007	**Yr 10**	23,090,192
	Total:	**233,081,906**

As a note, not every dollar of allocations awarded is claimed by investors. According to the Department of Revenue, in 2016, $192 million in income taxes was claimed by investors awarded allocations as part of the program. This represents about 82% of the $233 million in allocation available to be utilized. Among other factors, this could be due to a recapture of credits by the agency from the owner for not meeting the compliance requirements overseen by the agency.

Time Lag: Award Year and 8610 Filing Years

Housing Credits cannot be claimed until a property completes construction and units are rented to income eligible tenants, which is typically 18-24 after the development was initially awarded credits. Therefore, policy decisions, administrative adjustments, and economic factors in an award year/round are generally not reflected in final allocation of credits for a period of approximately two years. (Example: An economic event that lowers credit pricing in 2009 will not show an impact on credit allocations and units until 2011.)

The numbers in the accompanying chart were taken from DCA's IRS 8610 filing form, completed annually by the agency to report on all final credit allocations awarded in the previous calendar year. This annualized summary reflects only those completed projects eligible to begin claiming credits and could span multiple allocation years.

Attachment(s)

Georgia Housing Tax Credit by Final Allocation Year

Appendix I

Administrative, Policy, and Economic Factors Influencing Credit Allocations or Units Production

- In 2000, only 13 applications were funded overall. Unused 2000 credits were rolled into the 2001 round. Two years later (2003) the increase of allocated credits and units is reflected in the numbers as the 2001 units' completed construction and began claiming credits.
- In 2005, Hurricane Katrina struck the South, causing extensive damage and creating an unprecedented increase in construction pricing as the coast struggled to rebuild. DCA responded to the crises by allocating additional credits during the 2006 round to many properties that received credits in 2005. These properties were under construction at the time Hurricane Katrina impacted construction costs. This created an artificial increase in units in 2008.
- In 2009 and 2010, the economic crises created a crash in the equity market. The American Recovery and Reinvestment Act (ARRA) allowed the "monetization" of credits. DCA was able to return credits to Treasury in exchange for cash which was used in lieu of credits for many properties. The crash also delayed many 2009 deals. This created a significant drop in allocated credits in 2011 as the monetized credits were accounted for outside of the housing credit program.
- New Construction will typically use more tax credit funds. In early years, DCA provided a competitive advantage for small rehabilitations for existing properties. These properties increased the numbers of units produced because the amount of rehab was relatively minor. For example, in 2005 more than half of the selected projects were small rehabs with credit allocations as low as $81,150 (about 1/10 of a typical development). Recent allocations have focused on new construction of properties of high need where there is a lack of affordable housing available.
- In some years, credits are supplemented with another DCA resource: HOME Investment Partnership Funds. HOME funds increase the amount of resources available and decrease the amount of credits needed to complete a property. Congress has reduced the amount of HOME funds by almost 50% over recent years, which has impacted the tax credit program. For example, in 2005, DCA awarded more than $19 million of HOME funds to tax credit properties, which created additional units in that round. In the 2016 round, only $2,250,000 of HOME funds were utilized in the tax credit round.
- Georgia has a rural set aside that guarantees a minimum of 35% of its resources will be allocated to properties in rural areas. The overall per unit cost of rural properties tends to be higher than urban properties because of the loss of efficiencies of scale (standard costs spread over fewer units).
- DCA worked with USDA in 2014 to structure an innovative program to rehabilitate small rural properties. The program resulted in the rehabilitation of approximately 54 rural properties throughout Georgia using two large tax exempt bond issuances with multiple underlying tax credit properties. This program produced an additional 1,362 units on the 4% bond side in 2015 and 620 units on the 4% bond side in 2016.

Appendix II

As noted in the 10-year Credit Period section, credits can be claimed for a 10-year period. For 2016, developments which began claiming credits in 2007 will typically claim their last year's tax credit allocation in 2016. Total allocations eligible to be claimed by investors hit its highest point in 2014 at approximately $244 million. These numbers are estimates, as there can be slight variations in the first and last year of credits due to the ability to take pro-rated awards in years 1 and 11.

Cumulative Allocations by 8610 Filing Year

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2016															233,081,906
2015														242,089,630	
2014													244,582,647		
2013												238,503,862			
2012											226,546,870				
2011										208,608,133					
2010									200,851,760						
2009								184,545,555							
2008							150,908,744								
2007						115,705,107									
2006					92,614,915										
2005				64,368,088											
2004			40,571,728												
2003		24,999,898													
2002	9,879,759														